

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other				Local Unit Name Joseph K Lumsden Bahweting Public School		County Chippewa	
Fiscal Year End June 30, 2006		Opinion Date August 4, 2006		Date Audit Report Submitted to State October 27, 2006			

We affirm that:

We are certified public accountants licensed to practice in Michigan.

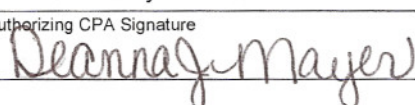
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES NO **Check each applicable box below.** (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☒ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:		Enclosed	Not Required (enter a brief justification)	
Financial Statements		<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations		<input checked="" type="checkbox"/>		
Other (Describe)		<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Anderson, Tackman & Company, PLC			Telephone Number 906-495-5952	
Street Address 16978 S. Riley Avenue			City Kincheloe	State MI
			Zip 49788	
Authorizing CPA Signature 		Printed Name Deanna J. Mayer		License Number 1101028546

Joseph K. Lumsden Bahweting Public School

**Financial Report
with Supplemental Information**

June 30, 2006

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ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

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Independent Auditor's Report

To the Members of the
Administration and Board of Education
Joseph K. Lumsden Bahweting Public School
Sault Ste. Marie, Michigan 49783

We have audited the accompanying financial statements of the governmental activities, each major fund and aggregate remaining fund information of the Joseph K. Lumsden Bahweting Public School as of and for the year ended June 30, 2006, which collectively comprise the School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Joseph K. Lumsden Bahweting Public School's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the Michigan School Auditing Manual. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and aggregate remaining fund information of Joseph K. Lumsden Bahweting Public School as of June 30, 2006, and the respective changes in financial position, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 4, 2006, on our consideration of Joseph K. Lumsden Bahweting Public School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Administration's Discussion and Analysis and the budgetary comparison schedule information identified in the Table of Contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Joseph K. Lumsden Bahweting Public School basic financial statements. The accompanying information identified in the Table of Contents as other supplemental information are presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is also presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations* and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to basic financial statements.



Anderson, Tackman & Company, PLC
Certified Public Accountants

August 4, 2006

Administration's Discussion and Analysis

Joseph K. Lumsden Bahweting Public School is a K-8 School located in Chippewa County, Michigan. The Administration's Discussion and Analysis, a requirement of GASB #34, is intended to be the Joseph K. Lumsden Bahweting Public School Administration's discussion and analysis of the financial results for the fiscal year ended June 30, 2006.

U.S. generally accepted accounting principles (GAAP) according to GASB #34 requires the reporting of two types of financial statements: School-wide Financial Statements and Fund Financial Statements.

Fund Financial Statements:

For the most part, the fund financial statements are comparable to prior year's financial statements. The fund level statements are reported on a modified accrual basis. Only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources.

The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual." In the State of Michigan, the School's major instruction and instructional support activities are reported in the General Fund. Additional activities are reported in their relevant funds including: Capital Project and the Special Revenue Funds.

In the fund financial statements, capital assets purchased are reported as expenditures in the year of acquisition. No asset is reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long-term obligations are recorded as expenditures. Future year's debt obligations are not recorded.

School-wide Financial Statements:

The School-wide financial statements are new reporting formats under GASB #34. These statements are maintained using the "full accrual" basis. They report all of the School's assets and liabilities, both short and long term, regardless if they are "currently available" or not. Capital assets and long-term obligations of the School are reported in the Statement of Net Assets of the School-wide financial statements.

Summary of Net Assets:

The following summarizes the net assets at fiscal year ended June 30, 2005 and 2006:

Net Assets Summary

	<u>2005</u>	<u>2006</u>
Assets		
Current assets	\$ 4,362,772	\$ 4,984,799
Capital assets (net of accumulated depreciation)	<u>1,763,024</u>	<u>1,654,606</u>
Total assets	<u>\$ 6,125,796</u>	<u>\$ 6,639,405</u>
Liabilities		
Current liabilities	\$ 277,060	\$ 305,384
Long-term liabilities	<u>10,448</u>	<u>5,352</u>
Total liabilities	<u>\$ 287,508</u>	<u>\$ 310,736</u>
Net Assets		
Invested in capital assets	\$ 1,763,024	\$ 1,654,606
Unrestricted	<u>4,075,264</u>	<u>4,674,063</u>
Total net assets	<u>\$ 5,838,288</u>	<u>\$ 6,328,669</u>

Analysis of Financial Position:

During fiscal year ended June 30, 2006, the School's net assets increased by \$490,381. A few of the significant factors affecting net assets during the year are discussed below:

A. General Fund Operations

The School's revenues from General Fund operations exceeded expenditures by \$184,036 for the fiscal year ended June 30, 2006.

2. Depreciation Expense

GASB 34 requires Schools to maintain a record of annual depreciation expense and accumulated depreciation. The net increase in accumulated depreciation expense is a reduction in net assets.

For fiscal year ended June 30, 2006, the net increase in accumulated depreciation was \$59,585.

Depreciation expense is recorded on a straight-line basis over the estimated useful lives of assets. In accordance with U.S. generally accepted accounting principles (GAAP), depreciation expense is recorded based on the original cost of the asset, less an estimated salvage value.

3. Capital Assets

The School's net investment in capital assets decreased by \$108,418 during the fiscal year. This is summarized as follows:

	Balance 06/30/05	Additions	Adjustments /Deletions	Balance 06/30/06
Capital assets	\$ 2,335,381	\$ 49,234	\$ (98,067)	\$ 2,286,548
Less: accumulated depreciation	<u>(572,357)</u>	<u>(153,317)</u>	<u>93,732</u>	<u>(631,942)</u>
Net investment capital outlay	<u>\$ 1,763,024</u>	<u>\$ (104,083)</u>	<u>\$ (4,335)</u>	<u>\$ 1,654,606</u>

4. Results of Operations:

For the fiscal year ended June 30, 2006, the School wide results of operations were:

	<u>2005</u>	<u>2006</u>
General Revenue:		
State of Michigan Aid – Unrestricted	\$ 2,140,866	\$ 2,251,060
BIA Grants	2,843,031	2,539,785
Investment Earnings	70,242	202,732
Other	<u>11,792</u>	<u>153,542</u>
Total General Revenue	<u>5,065,931</u>	<u>5,147,119</u>
Program Revenue:		
Charges for Services – Local	31,681	40,691
Operating Grants – Federal and State	<u>383,544</u>	<u>365,942</u>
Total Program Revenue	<u>415,225</u>	<u>406,633</u>
Total Revenues	<u>5,481,156</u>	<u>5,553,752</u>
Expenses:		
Instruction and Instructional Services	2,523,646	2,779,516
Support Services	2,312,270	1,903,308
Food Service	172,829	182,030
Athletics	1,850	-
Depreciation (Unallocated)	130,398	153,317
Other	<u>47,500</u>	<u>45,200</u>
Total Expenses	<u>5,188,493</u>	<u>5,063,371</u>
Changes in Net Assets	292,663	490,381
Net Assets – Beginning of Year	<u>5,545,625</u>	<u>5,838,288</u>
Net Assets – End of Year	<u>\$ 5,838,288</u>	<u>\$ 6,328,669</u>

1. State of Michigan Aid, Unrestricted

The State of Michigan aid, unrestricted is determined by the following variables:

- a. State of Michigan Aid Act per student foundation allowance
- b. Student Enrollment – Blended at 75% of current year fall count and 25% of prior year winter count

Per Student, Foundation Allowance:

Annually, the State of Michigan sets the per student foundation allowance. The Joseph K. Lumsden Bahweting Public School foundation allowance was \$6,875 per student for the 2005–2006 school year. This is \$175 increase per student compared to 2004-2005 school year.

Student Enrollment:

The School's student enrollment for the fall count of 2005-2006 was 335 students. The School's enrollments have gradually increased in the past five years. The following summarizes fall student enrollments in the past five years:

	<u>Enrollment</u>	<u>Change from Prior Year</u>
2005 – 2006	335	5.35%
2004 – 2005	318	18.20%
2003 – 2004	269	26.29%
2002 – 2003	213	7.57%
2001 – 2002	198	9.39%

Subsequent to year end June 30, 2006, preliminary student enrollments for 2006-2007 indicate that enrollments will increase from 2005-2006.

GENERAL FUND BUDGET & ACTUAL REVENUES & EXPENDITURES**General Fund Revenue Budget vs. Actual 5-Year History**

<u>Fiscal Year</u>	<u>Revenues Final Budget</u>	<u>Revenues Final Actual</u>	<u>Variance Over (Under)</u>
2001 – 2002	3,943,953	3,983,268	39,315
2002 – 2003	3,817,360	3,804,989	(12,371)
2003 – 2004	5,091,201	4,858,907	(232,294)
2004 – 2005	5,831,605	5,495,338	(336,267)
2005 - 2006	5,610,990	5,492,810	(118,180)

General Fund Expenditures Budget vs. Actual 5-Year History

<u>Fiscal Year</u>	<u>Expenditures Final Budget</u>	<u>Expenditures Final Actual</u>	<u>Variance (Over) Under</u>
2001 – 2002	3,443,953	3,168,754	275,199
2002 – 2003	3,778,031	3,547,594	230,437
2003 – 2004	4,984,910	4,847,715	137,195
2004 – 2005	5,342,854	5,019,385	323,469
2005 – 2006	4,825,975	4,732,819	93,156

Original vs. Final Budget:

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year.

For the fiscal year 2005 - 2006, the budget was adopted June 20, 2005. The budget was amended in January 2006 and again in June 2006. The June 2006 amendment was the final amendment for the fiscal year.

Change from Original to Final Budget:**General Fund Revenues:**

Total Revenues Original Budget	\$ 4,609,357
Total Revenues Final Budget	<u>5,610,990</u>
Increase in Budgeted Revenues	<u>\$ 1,001,633</u>

The School's final general fund revenues differed from final budget by \$(118,180) a variance of 2.1%.

The Final Revenue Budget reflects the following changes from the original budget:

- Actual, fall student enrollment was higher than projected in the Original Budget.
- State per pupil allocation increased by \$175 per pupil
- Earnings on Investments exceeded projected figures.

General Fund Expenditures:

The School's budget for expenditures changed as follows during the year:

Total Expenditures Original Budget	\$ 4,461,977
Total Expenditures Final Budget	<u>4,825,975</u>
Increase in Budgeted Expenditures	<u>\$ 363,998</u>

The School's actual excess expenditures were less than final budget by \$93,156.

Some of the significant budget adjustments for the year include:

- MPSERS retirement contribution increased from 14.87% to 16.34%.
- Increased administrative expenses
 - 3% administrative fee charged on all BIA transferred funds
 - Increased legal expenses
- Diesel fuel and utility costs increased from original projections.
- Language Immersion Camp was implemented

2006 – 2007 Budget

The Preliminary Budget for the 2006-07 Fiscal Year was adopted by the Board of Education on June 27, 2006. Several important factors were known as the budget was drafted, Listed below are several factors utilized to build the 06-07 budget.

- MPSERS employer contribution increasing from 16.37% to 17.74% effective October 1, 2006.
- Additional salaries and benefits were added for additional staffing requirements.
- Increased diesel fuel and utility costs expected to steadily increase.

Contacting the School's Financial Management:

This financial report is designed to provide our citizens and taxpayers with a general overview of the School's finances. If you have questions about this report or need additional information, contact the Administration Office, Joseph K. Lumsden Bahweting Public School.

Basic Financial Statements

Joseph K. Lumsden Bahweting Public School

Statement of Net Assets June 30, 2006

	Governmental Activities
ASSETS:	
Cash and investments	\$ 4,490,130
Due from other governmental units	455,738
Accounts receivable	7,074
Inventory	2,416
Prepaid expenses	28,441
Other assets	1,000
Capital assets Not Depreciated	25,122
Capital assets Depreciated	1,629,484
Total assets	<u>\$ 6,639,405</u>
LIABILITIES:	
Current Liabilities:	
Accounts payable	\$ 22,454
Accrued salaries and withholding	280,503
Deferred revenue	2,427
Noncurrent Liabilities:	
Compensated absences payable	5,352
Total liabilities	<u>310,736</u>
NET ASSETS:	
Invested in capital assets	1,654,606
Unrestricted	4,674,063
Total net assets	<u>\$ 6,328,669</u>

Joseph K. Lumsden Bahweting Public School**Statement of Activities
Year Ended June 30, 2006**

	Expenses	Program Revenues		Governmental Activities
		Charges for Services	Operating Grants	Net (Expense) Revenue and Changes in Net Assets
Functions/Programs				
Governmental Activities:				
Instruction and Instructional Services	\$ 2,779,516	\$ -	\$ 280,503	\$ (2,499,013)
Support services	1,903,308	-	-	(1,903,308)
Food services	182,030	40,691	85,439	(55,900)
Other	45,200	-	-	(45,200)
Depreciation (Unallocated)	153,317	-	-	(153,317)
Total Governmental Activities	<u>\$ 5,063,371</u>	<u>\$ 40,691</u>	<u>\$ 365,942</u>	(4,656,738)
General Revenues:				
State of Michigan aid, unrestricted				2,251,060
Interest and investment earnings				202,732
BIA Grant				2,539,785
Other General				153,542
Total general revenues				<u>5,147,119</u>
Changes in Net Assets				490,381
Net assets:				
Beginning of year				<u>5,838,288</u>
End of year				<u>\$ 6,328,669</u>

Joseph K. Lumsden Bahweting Public School

Balance Sheet Governmental funds June 30, 2006

	General	Capital Projects	Other Nonmajor Governmental Funds	Total Governmental Funds
ASSETS:				
Cash and investments	\$ 3,416,710	\$ 967,790	\$ 105,630	\$ 4,490,130
Due from other governmental units	455,738	-	-	455,738
Inventories	-	-	2,416	2,416
Accounts Receivables	3,477	-	3,597	7,074
Prepaid expenses	28,441	-	-	28,441
Other Assets	1,000	-	-	1,000
Total Assets	<u>\$ 3,905,366</u>	<u>\$ 967,790</u>	<u>\$ 111,643</u>	<u>\$ 4,984,799</u>
LIABILITIES:				
Accounts payable	\$ 22,205	\$ -	\$ 249	\$ 22,454
Accrued salaries and withholdings	280,503	-	-	280,503
Deferred revenue	787,581	-	2,448	790,029
Total liabilities	<u>1,090,289</u>	<u>-</u>	<u>2,697</u>	<u>1,092,986</u>
FUND BALANCES:				
Unreserved:				
Undesignated	413,015	-	-	413,015
Designated	2,402,062	-	-	2,402,062
Designated, capital projects	-	967,790	-	967,790
Designated, food services	-	-	108,946	108,946
Total fund balances	<u>2,815,077</u>	<u>967,790</u>	<u>108,946</u>	<u>3,891,813</u>
Total liabilities and fund balances	<u>\$ 3,905,366</u>	<u>\$ 967,790</u>	<u>\$ 111,643</u>	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources, and are not reported in the funds.

The cost of the capital assets is	\$ 2,286,548	
Accumulated depreciation is	<u>(631,942)</u>	1,654,606
Deferred revenue recognized as current revenue		787,602
Long-term liabilities are not due and payable in the current period and are not reported in the funds:		
Compensated absences		<u>(5,352)</u>
Net assets of governmental activities		<u>\$ 6,328,669</u>

Joseph K. Lumsden Bahweting Public School

Statement of Revenue, Expenditures and Changes in Fund Balances Governmental Funds Year Ended June 30, 2006

	General	Capital Projects	Other Nonmajor Governmental Funds	Totals
REVENUES:				
Charges for Services	\$ -	\$ -	\$ 40,691	\$ 40,691
Federal sources	2,829,071	-	77,450	2,906,521
State sources	2,341,359	-	7,989	2,349,348
Local sources	289,780	33,895	-	323,675
Other Revenue	32,600	-	-	32,600
TOTAL REVENUES	5,492,810	33,895	126,130	5,652,835
EXPENDITURES:				
Instructional Services:				
Elementary	1,035,816	-	-	1,035,816
Middle School	555,472	-	-	555,472
Special Education	380,440	-	-	380,440
Gifted & Talented	81,234	-	-	81,234
At Risk	72,016	-	-	72,016
Title I	451,332	-	-	451,332
Title II	76,250	-	-	76,250
Title IV	16,700	-	-	16,700
Title V	1,345	-	-	1,345
Title VII	48,731	-	-	48,731
Safe and Drug Free	2,256	-	-	2,256
Freedom to Learn	2,000	-	-	2,000
Culture and Language	105,158	-	-	105,158
Support Services:				
Guidance	25,162	-	-	25,162
Health Services	26,029	-	-	26,029
Library	67,798	-	-	67,798
Board of Education	251,309	-	-	251,309
Executive Administration	137,673	-	-	137,673
Office of the Principal	121,811	-	-	121,811
Fiscal Services	546,882	-	-	546,882
Operations & Maintenance	565,467	-	-	565,467
Pupil Transportation	161,938	-	-	161,938
Food Service	-	-	182,030	182,030
TOTAL EXPENDITURES	4,732,819	-	182,030	4,914,849
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	759,991	33,895	(55,900)	737,986
OTHER FINANCING SOURCES (USES):				
BIA Headstart Pass Thru	(45,200)	-	-	(45,200)
Operating transfers in	10,150	448,514	92,391	551,055
Operating transfers out	(540,905)	-	(10,150)	(551,055)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	184,036	482,409	26,341	692,786
FUND BALANCES, JULY 1	2,958,643	485,381	82,605	3,526,629
Prior Period Adjustment	(327,602)	-	-	(327,602)
FUND BALANCES, JUNE 30	\$ 2,815,077	\$ 967,790	\$ 108,946	\$ 3,891,813

Joseph K. Lumsden Bahweting Public School

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities For the Year Ended June 30, 2006

Net Changes in fund balances - total governmental funds	\$ 692,786
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The change in net assets reported for governmental activities in the statement of activities is different because:

Governmental funds reported capital outlays as expenditures. However, in the statement of activities the cost of those assets is capitalized and the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense (\$153,317) and loss on disposal of assets (\$4,335) exceeded capital outlay \$49,234 in the current period.	(108,418)
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Under the modified accrual basis of accounting used in governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. This adjustment combines the following net changes:

Compensated absences	5,096
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Grant revenue is not considered "available governmental funds" but is considered earned and recognized as revenue.	<u>(99,083)</u>
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Changes in net assets of governmental activities	<u><u>\$ 490,381</u></u>
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Joseph K. Lumsden Bahweting Public School

Statement of Fiduciary Net Assets Agency Fund For the Year Ended June 30, 2006

ASSETS:

Cash and equivalents	\$ 1,922
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LIABILITIES:

Due to School Organizations	\$ 1,922
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Notes to Financial Statements

Note 1 - Summary of Significant Accounting Policies

Charter School - The Charter School was organized under Act 362 of the Michigan Public Acts of 1993. This Act allows for this School to be eligible for State Aid and must comply with the Michigan School Code provisions. The School operates under a grant agreement with the Board of Control - Northern Michigan University. The School was created to provide a learning experience which includes Ojibwa culture, values and traditions. The School's Agreement with Northern Michigan University will expire on June 30, 2006.

The accounting policies of Joseph K. Lumsden Bahweting Public School conform to U.S. generally accepted accounting principles as applicable to Schools. The following is a summary of the significant accounting policies:

Reporting Entity

The accompanying basic financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board (GASB) for determining the various governmental organizations to be included in the reporting entity. These criteria include oversight responsibility, scope of public service, and special financing relationships. Based on application of the criteria, the entity does not contain component units. The School also applies Financial Accounting Standards Board pronouncements issued on or before November 30, 1989 to its governmental activities provided they do not conflict with or contradict GASB pronouncements.

Basic Financial Statements – School-wide Statements

The School's basic financial statements include both school-wide (reporting the School as a whole) and fund financial statements (reporting the School's major funds). The school-wide financial statements categorize primary activities as either governmental or business type. All of the School's activities are classified as governmental activities.

In the school-wide Statement of Net Assets, the governmental activities column (a) is presented on a consolidated basis of all nonfiduciary activities, (b) and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The School's net assets are reported in three parts- invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The School first utilizes restricted resources to finance qualifying activities.

The school-wide Statement of Activities reports both the gross and net cost of each of the School's functions. The functions are also supported by general government revenues (certain intergovernmental revenues, and charges, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

Note 1 - Summary of Significant Accounting Policies (Continued)

The net costs (by function) are normally covered by general revenue (state sources and federal sources, interest income, etc.).

The School does not allocate indirect costs. In creating the school-wide financial statements, the School has eliminated interfund transactions.

The school-wide focus is on the sustainability of the School as an entity and the change in the School's net assets resulting from the current year's activities.

Basic Financial Statements – Fund Financial Statements

The accounts of the School are organized on the basis of funds. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenue, and expenditures. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the combined financial statements in this report, into generic fund types in two broad fund categories as follows.

Governmental Funds – Governmental Funds are those funds through which most School functions typically are financed. The acquisition, use, and balances of the School's expendable financial resources and the related current liabilities are accounted for through governmental funds.

The School reports the following major governmental funds:

General Fund – The General Fund is used to record the general operations of the School pertaining to education and those operations not provided for in other funds. Included are all transactions related to the approved operating budget.

Capital Projects Funds – The Capital Project Funds are used to account for the acquisition or construction of major capital facilities.

Additionally, the School reports the following fund types:

Special Revenue Funds – Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes. The School Service Funds are used to segregate, for administrative purposes, the transactions of a particular activity from regular revenue and expenditure accounts. The School maintains full control of these funds. The School Service Funds maintained are the School Lunch Fund and Athletic Program Fund.

Agency Fund – Agency Funds are used to account for assets held by the School for individuals or groups.

Note 1 - Summary of Significant Accounting Policies (Continued)**Measurement Focus and Basis of Accounting**

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates the timing of the measurements made regardless of the measurement focus and the government-wide statement uses the economic resources measurement focus.

Accrual

Governmental activity in the school-wide financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

Modified Accrual

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that the principal and interest on general obligation long-term debt is recognized when due.

Those revenues susceptible to accrual are state aid, interest revenue, grants and charges for services. Other revenue is recorded when received.

The School reports deferred revenue on its governmental fund balance sheet. Deferred revenues arise when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when resources are received by the School before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

The State of Michigan utilizes a foundation allowance approach, which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation allowance is funded from a combination of state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The state portion of the foundation is provided from the state's School Aid Fund and is recognized as revenue in accordance with state law and accounting principles generally accepted in the United States of America.

Note 1 - Summary of Significant Accounting Policies (Continued)

The School also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain categorical funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

Cash and Investments – Cash equivalents consist of checking and petty cash and are stated at cost. All deposits are carried at cost. Investments are stated at cost, which approximates market value.

Receivables and Payables - Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "interfund receivables/payables" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as due to/from other funds. Advances between funds are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

Prepaid Items - Payments made to vendors for services that will benefit periods beyond June 30, 2006, are recorded as prepaid items.

Inventories – Inventories are stated at cost, on a first-in, first-out basis, which approximates market value. The Food Services Fund inventory consists of food and paper goods. For other funds, expenditures are recorded at the time of use.

Capital Assets – Capital assets, which include land, buildings, furniture and equipment are reported in the governmental activities column in the school-wide financial statements. Capital assets are defined by the school as assets with an initial individual cost of \$5,000 or more and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Land improvements	10 – 20 years
Buildings and additions	20 – 50 years
Buses and other vehicles	5 – 10 years
Furniture and other equipment	5 – 20 years
Leasehold improvements	5 – 20 years

Note 1 - Summary of Significant Accounting Policies (Continued)

Compensated Absences – The liability for compensated absences reported in the school-wide statements consist of unpaid, accumulated annual vacation balances. The liability has been calculated using the vesting method, in which leave amounts for employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

Estimates – The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Note 2 - Budgets

The School formally adopted General Fund and Special Revenue Fund budgets by function for the fiscal year ended June 30, 2006. Expenditures at this level in excess of amounts budgeted is a violation of Michigan law. Unexpended appropriations lapse at year-end; encumbrances are not included as expenditures. During the current year, the budget was amended in a legally permissible manner. The budget has been prepared in accordance with U.S. generally accepted accounting principles.

A comparison of actual results of operations to the budgeted amounts (at the level of control adopted by the Board of Education) for the General Fund is presented as Required Supplemental Information.

Note 3 - Deposits and Investments**Deposits**

At year end, the School's deposits and investments were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Fiduciary Funds</u>
Cash and Cash Equivalents	\$ 158,393	\$ 1,922
Investments	<u>4,331,737</u>	<u>-</u>
Total	<u>\$ 4,490,130</u>	<u>\$ 1,922</u>

The School's deposits are deposited in two local financial institutions. Deposits are carried at cost.

Note 3 - Deposits and Investments (Continued)

The breakdown between deposits and investments is as follows:

	<u>Primary Government</u>	<u>Fiduciary Funds</u>
Bank Deposits (checking and savings accounts)	\$ 158,293	\$ 1,922
Investments in U.S. Obligations	4,331,737	-
Cash on Hand	<u>100</u>	<u>-</u>
	<u>\$ 4,490,130</u>	<u>\$ 1,922</u>

Statutory Authority:

Michigan laws compiled Section 129.91, authorizes the School to deposit and invest in one or more of the following:

- a. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution that is eligible to be a depository of funds belonging to the State under a law or rule of this State or the United States.
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and matures not more than 270 days after the date of purchase.
- d. Repurchase agreements consisting of instruments listed in a.
- e. Bankers acceptance of United States banks.
- f. Obligations of this State or any of its political subdivisions that at this time of purchase are rated as investment grade by not less than one standard rating service.
- g. Mutual funds registered under the investment company act of 1940, Title I of Chapter 686, 54 Stat. 789, 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64, with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- h. Obligation described in a. through g. if purchase through an interlocal agreement under the urban cooperations act of 1967, 1967 (Ex Sess) PA 7, MCL 124.501 to 124.512.
- i. Investment pools organized under the surplus funds investment pool act, 1982 PA 367, 129.111 to 129.118.
- j. The investment pools organized under the local government investment pool act, 1985 PA 121, MCL 129.141 to 129.150. The Schools deposits are in accordance with state statutes.

All deposits are in accordance with statutory authority.

Note 3 - Deposits and Investments (Continued)

As of June 30, 2006, the School had the following investments.

	<u>Maturities</u>	<u>Cost</u>	<u>Fair Value</u>
U.S. Treasury Bill	7/6/06	\$ 295,079	\$ 299,531
U.S. Treasury Bill	7/13/06	147,495	149,625
U.S. Treasury Bill	7/20/06	245,844	249,141
U.S. Treasury Bill	7/27/06	245,825	248,984
U.S. Treasury Bill	8/3/06	122,899	124,375
U.S. Treasury Bill	8/10/06	122,889	124,258
U.S. Treasury Bill	8/17/06	245,740	248,203
U.S. Treasury Bill	8/24/06	122,843	123,984
U.S. Treasury Bill	8/31/06	245,687	247,813
U.S. Treasury Bill	9/7/06	245,643	247,500
U.S. Treasury Bill	9/14/06	245,613	247,344
U.S. Treasury Bill	9/21/06	196,290	197,625
U.S. Treasury Bill	9/28/06	196,121	197,438
U.S. Treasury Bill	10/5/06	195,924	197,250
U.S. Treasury Bill	10/12/06	200,636	201,925
U.S. Treasury Bill	10/19/06	244,656	246,016
U.S. Treasury Bill	10/26/06	146,837	147,469
U.S. Treasury Bill	11/2/06	146,797	147,328
U.S. Treasury Bill	11/9/06	195,885	196,250
U.S. Treasury Bill	11/16/06	244,767	245,000
U.S. Treasury Bill	11/24/06	97,864	97,906
U.S. Treasury Bill	11/30/06	<u>146,772</u>	<u>146,772</u>
Total		\$ <u>4,298,106</u>	\$ <u>4,331,737</u>

Investment and Deposit Risk

Interest Rate Risk. Through its investment policy, the School manages its exposure risk to fair value losses arising from increasing interest rates by limiting the duration of its investment portfolio to one year or less.

Credit Risk. The Schools policy limits investments in bonds, bills, or notes of the United States; certificates of deposits; commercial paper rated prime 1 or prime 2, maturing 270 days or less.

Concentration of Credit Risk. The Schools policy places no limits on the amount the School may invest. The School may invest 100% of available reserve in U.S. Treasury securities and those securities completely guaranteed by the Treasury. Investments in other types of authorized securities may be made at no more than 25% of total current investment portfolio consists of one type of security.

Note 3 - Deposits and Investments (Continued)

Custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the School's deposits may not be returned. State law does not require and the School does not have a policy for deposit custodial credit risk. As of year end, \$234,778 of the School's bank balance of \$336,696 was exposed to credit risk because it was uninsured and uncollateralized.

Note 4 - Capital Assets

A summary of changes in governmental capital assets follows:

	Balance July 1, 2005	Additions	Adjustments/ Deductions	Balance June 30, 2006
Capital Assets Not Depreciated:				
Land	\$ 25,122	\$ -	\$ -	\$ 25,122
Total Assets Not Depreciated	25,122	-	-	25,122
Capital Assets Depreciated:				
Land Improvements	106,667	6,780	-	113,447
Buildings	205,600	-	-	205,600
Building Improvements	842,283	-	-	842,283
Furniture, Fixtures, & Equipment	156,225	-	-	156,225
Buses	381,784	-	(98,067)	283,717
Leasehold Improvements	617,700	42,454	-	660,154
Total Assets Depreciated	2,310,259	49,234	(98,067)	2,261,426
Less Accumulated Depreciation for:				
Land Improvements	(25,421)	(5,852)	-	(31,273)
Buildings	(76,243)	(10,280)	-	(86,523)
Building Improvements	(122,813)	(40,884)	-	(163,697)
Furniture, Fixtures, & Equipment	(48,445)	(18,764)	-	(67,209)
Buses	(169,707)	(37,631)	93,732	(113,606)
Leasehold Improvements	(129,728)	(39,906)	-	(169,634)
Subtotal	(572,357)	(153,317)	93,732	(631,942)
Net Capital Assets Depreciated	1,737,902	(104,083)	(4,335)	1,629,484
Total Net Capital Assets	\$ 1,763,024	\$ (104,083)	\$ (4,335)	\$ 1,654,606

Depreciation for the fiscal year ended June 30, 2006 amounted to \$153,317. The School determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

Note 5 - Risk Management

The School is exposed to risks of loss related to property loss, torts, errors, and omissions, employee injuries (worker's compensation), as well as medical benefits provided to employees. The School has purchased commercial insurance for claims relating to worker's compensation and property/casualty claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Note 6 - Commitments and ContingenciesGrants

The School has received significant assistance from state and federal agencies in the form of various grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and is subject to audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the applicable fund of the School. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the School at June 30, 2006.

Note 7 - Due From Other Governmental Units

Amounts due from other governmental units consist of \$437,381 in revenues due from state and federal sources. These revenues represent amounts used for the operation of special programs and grant projects, as well as for the final payment of 2006 state aid, which was not received until after year-end due to a change in the state aid payment schedule.

Note 8 - Employee Retirement System – Defined Benefit Plan

Plan Description – The School District participates in the Michigan Public School Employees' Retirement System (MPERS), a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan that covers substantially all employees of the District. The system provides retirement, survivor and disability benefits to plan members and their beneficiaries. The Michigan Public School Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the system at 7150 Harris Drive, P.O. Box 30673, Lansing, MI 48909-8103.

Funding Policy – Employer contributions to the system result from the implementing effects of the School Finance Reform Act. Under these procedures, each school district is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis.

Note 8 - Employee Retirement System – Defined Benefit Plan (Continued)

The pension benefit rate totals 14.87 percent for the period July 1, 2005 through September 30, 2005 and 16.34 percent for the period October 1, 2005 through September 30, 2006. Basic plan members make no contributions, but Member Investment Plan members contribute at rates ranging from 3 percent to 4.3 percent of gross wages. The District's contributions to the MPSERS plan for the years ended June 30, 2006, 2005, and 2004 were \$345,000, \$227,623, and \$232,791 respectively.

Post Employment Benefits – Under the MPSERS Act, all retirees participating in the MPSERS Pension Plan have the option of continuing health, dental and vision coverage. Retirees having these coverages contribute an amount equivalent to the monthly cost of Part B Medicare and 10 percent of the monthly premium amount for the health, dental and vision coverages. Required contributions for post employment health care benefits are included as part of the District's total contribution to the MPSERS plan discussed above.

Note 9 - Long-Term Liabilities

The School's employment policy provides for School staff who are classified as regular, full or part time, have completed required probationary periods, and work year around (Administrative, Administrative Support, Library, Clerical, Maintenance) accrue vacation according to the following:

1. Salaried employees earn fifteen (15) days for the first year of employment and one additional day per year of service thereafter, up to a maximum of thirty (30) days per year.
2. Hourly employees earn ten (10) days for the first year of employment and one additional day per year of service thereafter.

A summary of accrued compensated absences at June 30, 2006 is as follows:

	<u>Balance July 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2006</u>
Vacation	\$ <u>10,448</u>	\$ <u>-</u>	\$ <u>(5,096)</u>	\$ <u>5,352</u>

Note 10 - Interfund Transfers

TRANSFERS IN	TRANSFERS OUT		
	<u>General Fund</u>	<u>Nonmajor Governmental</u>	<u>Total</u>
General Fund	\$ -	\$ 10,150	\$ 10,150
Capital Projects	448,514	-	448,514
Nonmajor Governmental	<u>92,391</u>	<u>-</u>	<u>92,391</u>
Total	\$ <u>540,905</u>	\$ <u>10,150</u>	\$ <u>551,055</u>

Note 10 - Interfund Transfers (Continued)

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, and (2) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Note 11- Operating Leases

The School leases the main building from the Sault Ste. Marie Tribe of Chippewa Indians on an operating lease ending June 30, 2007. Monthly payments are \$14,347. There was a prepaid balance at year end in the amount of \$28,441.

Note 12- Fund Balance Designations

The fund balance has been designated as follows:

General Fund:	
Interest earned 2005/2006	\$ 70,255
Prior years interest earned	631,807
Unemployment Compensation	800,000
Contract Settlements	500,000
Land Purchase	50,000
New School Furnishings	<u>350,000</u>
Total General Fund	<u>\$ 2,402,062</u>
Capital Project Fund:	
Capital Projects – Future Projects	<u>\$ 967,790</u>
Special Revenue Funds:	
Food Service – Food Service	<u>\$ 108,946</u>

Note 13- Prior Period Adjustment

A prior period adjustment was made for unallowed federal expenditures.

Note 14- Budget Violations

Public Act 621 of 1978, as amended, requires budget amendments as needed to prevent actual expenditures from exceeding those provided in the budget.

Expenditures that exceeded appropriations by material amounts were as follows:

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund:			
BIA/Headstart – Pass Thru	\$ -	\$ 45,200	\$ (45,200)

Required Supplemental Information

Joseph K. Lumsden Bahweting Public School

Required Supplemental Information Budgetary Comparison Schedule – General Fund Year Ended June 30, 2006

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Over (Under)
	Original	Final	(Budgetary Basis)	
Revenues:				
Federal Sources	\$ 2,410,694	\$ 2,970,666	\$ 2,829,071	\$ (141,595)
State Sources	2,132,663	2,341,372	2,341,359	(13)
Local Sources	66,000	275,284	289,780	14,496
Other Revenue	-	23,668	32,600	8,932
Total Revenues	4,609,357	5,610,990	5,492,810	(118,180)
Expenditures:				
Instructional Services	2,757,023	2,946,237	2,828,750	117,487
Support Services	1,704,954	1,879,738	1,904,069	(24,331)
Total Expenditures	4,461,977	4,825,975	4,732,819	93,156
Excess of Revenues (Expenditures)	147,380	785,015	759,991	(25,024)
Other Financing Sources (Uses)				
BIA/Headstart Pass Thru	-	-	(45,200)	(45,200)
Operating Transfers In	-	10,150	10,150	-
Operating Transfers Out	(105,763)	(540,904)	(540,905)	(1)
Total Other Financing Sources (Uses)	(105,763)	(530,754)	(575,955)	(45,201)
Net Changes in Fund Balances	\$ 41,617	\$ 254,261	184,036	\$ (70,225)
Fund Balance – Beginning of year			2,958,643	
Prior Period Adjustment			(327,602)	
Fund Balance – End of Year			\$ 2,815,077	

Other Supplemental Information

Joseph K. Lumsden Bahweting Public School

Other Supplemental Information Combining Balance Sheet Nonmajor Governmental Funds June 30, 2006

	Special Revenue Funds		
	Athletic	Food Service	Total
ASSETS:			
Cash and cash equivalents	\$ -	\$ 105,630	\$ 105,630
Accounts receivable	-	3,597	3,597
Inventory	-	2,416	2,416
TOTAL ASSETS	\$ -	\$ 111,643	\$ 111,643
LIABILITIES:			
Accounts Payable	\$ -	\$ 249	\$ 249
Deferred Revenue	-	2,448	2,448
TOTAL LIABILITIES	-	2,697	2,697
FUND EQUITY:			
Fund Balance:			
Designated	-	108,946	108,946
TOTAL LIABILITIES AND FUND EQUITY	\$ -	\$ 111,643	\$ 111,643

Joseph K. Lumsden Bahweting Public School

Other Supplemental Information Combining Statement of Revenue, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds Year Ended June 30, 2006

	Special Revenue Funds		
	Athletic	Food Service	Total
REVENUES:			
Charges for Services	\$ -	\$ 40,691	\$ 40,691
Federal Sources	-	77,450	77,450
State Sources	-	7,989	7,989
TOTAL REVENUES	-	126,130	126,130
EXPENDITURES:			
Food Services	-	182,030	182,030
TOTAL EXPENDITURES	-	182,030	182,030
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	-	(55,900)	(55,900)
OTHER FINANCING SOURCES:			
Operating Transfers In	-	92,391	92,391
Operating Transfers Out	(10,150)	-	(10,150)
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES	(10,150)	36,491	26,341
FUND BALANCES, JULY 1	10,150	72,455	82,605
FUND BALANCES, JUNE 30	\$ -	\$ 108,946	\$ 108,946

Reports on Compliance



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

PHILLIP J. WOLF, CPA, PRINCIPAL
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MEMBER AICPA
DIVISION FOR CPA FIRMS

MEMBER MACPA

OFFICES IN
MICHIGAN & WISCONSIN

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Members of the
Administration and Board of Education
Joseph K. Lumsden Bahweting Public School
Sault Ste. Marie, Michigan 49783

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Joseph K. Lumsden Bahweting Public School as of and for the year ended June 30, 2006, which collectively comprise Joseph K. Lumsden Bahweting Public School's basic financial statements and have issued our report thereon dated August 4, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the Michigan School Auditing Manual, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Joseph K. Lumsden Bahweting Public School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Joseph K. Lumsden Bahweting Public School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 06-1.

We noted certain matters that we reported to management of Joseph K. Lumsden Bahweting Public School in a separate letter dated August 4, 2006.

This report is intended solely for the information and use of the Board of Education, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Anderson, Tackman & Company, PLC
Certified Public Accountants

August 4, 2006



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

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**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Members of the
Administration and Board of Education
Joseph K. Lumsden Bahweting Public School
Sault Ste. Marie, Michigan 49783

Compliance

We have audited the compliance of the Joseph K. Lumsden Bahweting Public School with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. The Joseph K. Lumsden Bahweting Public School's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Joseph K. Lumsden Bahweting Public School's management. Our responsibility is to express an opinion on the Joseph K. Lumsden Bahweting Public School's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Joseph K. Lumsden Bahweting Public School's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Joseph K. Lumsden Bahweting Public School's compliance with those requirements.

As described in item 06-2 in the accompanying schedule of findings and questioned costs, the Joseph K. Lumsden Bahweting Public School did not comply with requirements regarding cash management that is applicable to the Title I Program. Compliance with such requirements is necessary, in our opinion, for the Joseph K. Lumsden Bahweting Public School to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the Joseph K. Lumsden Bahweting Public School complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

The management of the Joseph K. Lumsden Bahweting Public School is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Joseph K. Lumsden Bahweting Public School's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the Joseph K. Lumsden Bahweting Public School's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as item 06-2.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weakness. However, we believe that none of the reportable conditions described above is a material weakness.

This report is intended solely for the information and use of the Board of Education, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



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Joseph K. Lumsden Bahweting Public School

Schedule of Expenditures of Federal Awards For the year ended June 30, 2006

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Agency or Pass-through Number	Approved Grant Amount	Receivable (Deferred Revenue) July 1, 2005	Prior Year Expenditures	Current Year Receipts	Current Year Revenue	Current Year Expenditures	Receivable (Deferred Revenue) June 30, 2006
U.S. DEPARTMENT OF EDUCATION:									
<i>Direct Awards:</i>									
Title VII - Indian Education	84.060	S060A021230	-	\$ -	\$ 42,135	\$ 48,731	\$ 48,731	\$ 48,731	\$ -
<i>Pass-through Eastern Upper Peninsula Intermediate School District:</i>									
Title VI-B Flowthrough	84.027	060450-0506	48,400	-	-	48,400	48,400	48,400	-
Safe and Drug Free Schools	84.186	0528260-0506	5,000	-	2,744	2,256	2,256	2,256	-
Freedom to Learn	84.318	064280-2	2,000	-	-	2,000	2,000	2,000	-
Total Pass-through EUPISD				-	2,744	52,656	52,656	52,656	-
<i>Pass-through from the U.S. Department of Interior, Bureau of Indian Affairs:</i>									
Education of the Handicapped (IDEA)	84.027	GTF60X50A6	-	-	-	289,180	217,157	217,157	(72,023)
Title II - Improving America's School Act	84.367	GTF60X50A6	-	-	-	57,900	57,900	57,900	-
Title IID - Improving America's School Act	84.318	GTF60X50A6	-	-	-	7,900	7,900	7,900	-
Title IV - Improving America's School Act	84.186	GTF60X50A6	-	-	-	16,700	16,700	16,700	-
Title I - Improving America's Schools Act	84.010	GTF60X50A6	-	-	-	378,981	378,981	378,981	-
Total Pass-through BIA				-	-	750,661	678,638	678,638	(72,023)
<i>Pass-through Michigan Department of Education:</i>									
Title I - Improving Basic Programs	84.010	061530 0506	72,351	-	-	72,351	72,351	72,351	-
Title V - Innov Educ Program Strategies	84.298	060250 0506	1,201	-	-	1,201	1,201	1,201	-
Technology Literacy Challenge Grant	84.318	064290 0506	1,350	-	-	1,350	1,350	1,350	-
Title IIA - Improving Teacher Quality	84.367	060520 0506	8,915	-	-	8,915	8,915	8,915	-
Total Pass-through MDOE				-	-	83,817	83,817	83,817	-
Total U.S. Department of Education				-	44,879	935,865	863,842	863,842	(72,023)
U.S. DEPARTMENT OF INTERIOR:									
<i>Direct Awards (Bureau of Indian Affairs):</i>									
Indian School Equalization Program	15.042	GTF60X502A3	-	(858,055)	2,890,206	1,578,130	1,727,327	1,727,327	(708,858)
Infant & Toddler	15.043	GTF60X502A3	-	-	-	45,200	45,200	45,200	-
Area Contract Support	15.047	GTF60X502A3	-	-	-	187,703	187,703	187,703	-
Total U.S. Department of Interior				(858,055)	2,890,206	1,811,033	1,960,230	1,960,230	(708,858)
U.S. DEPARTMENT OF AGRICULTURE:									
<i>Pass-through Michigan Department of Education:</i>									
National School Lunch Program	10.555	051970	9,018	-	48,895	9,018	9,018	9,018	-
National School Lunch Program	10.555	061970	49,639	-	-	49,639	49,639	49,639	-
National School Lunch - Breakfast	10.553	051950	3,064	-	13,015	3,064	3,064	3,064	-
National School Lunch - Breakfast	10.553	061950	15,666	-	-	15,666	15,666	15,666	-
USDA Commodities-Entitlement	10.550	N/A	-	(83)	218	-	62	62	(21)
Total Pass-through MDOE				(83)	62,128	77,387	77,449	77,449	(21)
Total U.S. Department of Agriculture				(83)	62,128	77,387	77,449	77,449	(21)
U.S. DEPARTMENT OF NATIONAL ENDOWMENT FOR THE HUMANITIES:									
<i>Pass-through Institute of Museum and Library Services:</i>									
Native American Library Services	45.311	NG-01-05-0103-05	5,000	-	-	-	5,000	5,000	5,000
Total Expenditures of Federal Awards				\$ (858,138)	\$ 2,997,213	\$ 2,824,285	\$ 2,906,521	\$ 2,906,521	\$ (775,902)

Note A - Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Joseph K. Lumsden Bahweting Public School, Sault Ste. Marie, Michigan and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note B - Agency or Pass-Through Number

The Agency or Pass-Through Number represents the facility's provider I.D. number. Some of these numbers were either not available or not provided by state or local administering agencies for the programs reported in the accompanying schedule.

Note C - Cognizant Agency

The School has not been assigned a Federal cognizant agency. Therefore, the School is under the general oversight of the United States Department of the Interior - Bureau of Indian Affairs which provided the greatest amount of direct awards to the School during 2006.

Note D - Catalog of Federal Domestic Assistance (CFDA) Number

The CFDA number represents the federal program identification number. The numbers were either obtained from the grant award, from correspondence from the federal agency or from the CFDA catalog.

Note E - Subrecipient Grantee – Tribally Controlled School Grant

The federal expenditures for the BIA Tribally Controlled School Grant includes a grant to the Sault Tribe Head Start Program. The pass-through grant amount totaled \$45,200 for 2006. The School Administrator is responsible for certain provisions of the grant.

Note F - Food Distribution

Non-monetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed.

Note G - Federal Receipts Reconciliation

Payments per Form R7120	\$ 167,048
State Fund Programs:	
School Breakfast	(5,844)
Pass thru Grants:	
EUPISD	52,656
Direct Awards:	
US Department of Education	48,731
Tribally Controlled School Grant –	
BIA Pass-Through	<u>2,561,694</u>
	<u>\$ 2,824,285</u>

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued: Unqualified

Internal control over financial reporting:

• Material weaknesses identified? No

• Reportable conditions identified that are not
considered to be material weaknesses? No

Noncompliance material to financial statements
noted? Yes

Federal Awards

Internal control over major programs:

• Material weaknesses identified? No

• Reportable conditions identified that are not
considered to be material weaknesses? Yes

Type of auditor’s report issued on compliance
for major programs: Qualified

Any audit findings disclosed that are required
to be reported in accordance with
section 510(a) of Circular A-133? Yes

Identification of Major Programs:**CFDA Numbers****Name of Federal Program**

15.042
84.010

Indian School Equalization Program
Title I

Dollar threshold used to distinguish
between type A and type B programs: \$ 300,000

Auditee qualified as low-risk auditee? No

Section II – Financial Statement Findings

Noncompliance with State Statutes**Expenditures in Excess of Appropriations*****Finding 06-1***

Statement of Condition/Criteria: Public Act 621 of 1978 requires that expenditures cannot be incurred until appropriated in accordance with the Uniform Budgeting and Accounting Act. During the fiscal year ended June 30, 2006, the School incurred expenditures in excess of amounts appropriated as follows.

<u>Fund/Function/Activity</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund:			
BIA/Headstart – Pass Thru	\$ -	\$ 45,200	\$ (45,200)

Effect: The School has not complied with various State Statutes.

Cause of Condition: Unknown

Recommendation: The Board should monitor and amend the budget as deemed necessary.

- Contact Person(s) Responsible for Correction:
Nick Oshelski, School Administrator
- Corrective Action Planned:
The budget will be more closely monitored and budget amendments will be made accordingly.
- Anticipated Completion Date:
The corrective procedures are in place.

Section III – Federal Award Findings and Questioned Costs

Reportable Conditions – Noncompliance with Federal Regulation**DEPARTMENT OF EDUCATION****Cash Management*****Finding 06-2***

Program: Title I; CFDA No. 84.010; U.S. Department of Education; Pass through Michigan Department of Education.

Criteria: Cash advances must be spent within three days of requesting funds.

Condition: The School requested the entire Title I allocation and did not spend the funds within the three day requirement.

Section III – Federal Award Findings and Questioned Costs (Continued)

Reportable Conditions – Noncompliance with Federal Regulation

DEPARTMENT OF EDUCATION

Cash Management

Finding 06-2

Effect: The School over requested funds.

Cause: Unknown

Recommendation: The School should not request funds until the expenditures have been incurred or will be paid for within three days of the request.

- Contact Person(s) Responsible for Correction:
Nick Oshelski, School Administrator
- Corrective Action Planned:
The School will not request funding until the funds have been spent.
- Anticipated Completion Date:
June 30, 2007

Section III – Federal Award Findings and Questioned Costs

Reportable Conditions – Noncompliance with Federal Regulation

DEPARTMENT OF INTERIOR

Payroll Certification

Finding 05-1

Program: Indian School Equalization Program; CFDA No. 15.042; U.S. Department of Interior Direct Award.

Criteria: OMB Circular A-87 “Cost Principles for State, Local, and Indian Tribal Governments,” requires time/salaries spent working on the Indian School Equalization Program to be documented for co-funded and 100% funded staff.

Condition: The School does not maintain the required documentation to be in compliance with OMB Circular A-87.

Effect: The School could be incorrectly charging employee salaries to Federal Programs.

Cause: Unknown.

Recommendation: The School District should prepare wage certifications at least semi-annually. The certifications must be signed by the employee and supervisor for employees who work solely for one program.

Management’s Response – Corrective Action Plan: The School will complete the required semi-annual certifications by employee beginning in the 2005-2006 fiscal year.

Status: Corrected.

Finding 05-2

Program(s): Indian School Equalization Grant; CFDA Number 15.042; U.S. Department of Interior; Direct Award.

Criteria: OMB Circular A-87 (g)(3) states “abnormal or mass severance pay will be considered on a case-by-case basis and is allowable only if approved by the cognizant agency.”

Condition: The School did not obtain approval from the cognizant agency prior to disbursement of an employee’s severance pay. Additionally, provisions of the severance agreement differed from the actual pay calculation for the payment of taxes.

Section III – Federal Award Findings and Questioned Costs (Continued)

Reportable Conditions – Noncompliance with Federal Regulation (Continued)

Effect: Without the proper approval from the cognizant agency, it is undeterminable if the mass severance pay is allowable. Additional provisions of Section 18(1) of the State Aid Act may apply, which could result in unallowable costs.

Cause: Proper approval was not obtained before payment of the mass severance pay from the cognizant audit agency.

Recommendation: The School should obtain approval of all severance packages from the cognizant agency prior to disbursement.

Status: The funds were returned during fiscal 2006.



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REPORT TO MANAGEMENT

To the Members of the
Administration and Board of Education
Joseph K. Lumsden Bahweting Public School
Sault Ste. Marie, Michigan 49783

We have audited the basic financial statements of the Joseph K. Lumsden Bahweting Public School for the year ended June 30, 2006 and have issued our report thereon dated August 4, 2006. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards and OMB Circular A-133

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered Joseph K. Lumsden Bahweting Public School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the Joseph K. Lumsden Bahweting Public School financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the Joseph K. Lumsden Bahweting Public School compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major Federal programs for the purpose of expressing an opinion on the Joseph K. Lumsden Bahweting Public School compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the Joseph K. Lumsden Bahweting Public School compliance with those requirements.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Joseph K. Lumsden Bahweting Public School are described in Note 1 to the basic financial statements. No new accounting policies were adopted and the application of existing policies was not changed during fiscal 2006. We noted no transactions entered into by the Joseph K. Lumsden Bahweting Public School during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the basic financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the basic financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Significant Audit Adjustments

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the basic financial statements that, in our judgment, may not have been detected except through our auditing procedures. These adjustments may include those proposed by us but not recorded by the Joseph K. Lumsden Bahweting Public School that could potentially cause future financial statements to be materially misstated, even though we have concluded that such adjustments are not material to the current financial statements. We proposed no audit adjustments that could, in our judgment, either individually or in the aggregate, have a significant effect on the Joseph K. Lumsden Bahweting Public School's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the basic financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's basic financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Joseph K. Lumsden Bahweting Public School's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

Comments and Recommendations

Prior year:

Board Minutes – During our review of Board Minutes, it was noted that not all approved board minutes were signed. We recommend Board Minutes be signed, by the Board President and Secretary, at the time of approval.

Status: Corrected.

Investments:

The School has not implemented GASB Statement #31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools. GASB #31 states that governmental entities should report investments at fair value in the balance sheet (or other statement of financial position); the School is presently reporting investments at cost. By reporting investments at cost, the School is understating its assets by \$22,549. The School is also required to amortize any premium or discount relating to investments, which is currently not performed.

Status: Corrected.

Current year:

Cash Management

During our review of compliance with OMB Circular A-133 for the Title I federal grant, it was noted that 100% of the balance of the State pass through was requested in early December 2005. The Federal compliance states the funds must be spent within three days. The funds were not spent in their entirety until June 2006. We recommend funds not be requested until the expenditure has been incurred.

Status: Funds will not be requested until the expenditures have been incurred.

Invoice Payment Approval

The School Board does not approve invoices prior to payment in accordance with State Statute. The School Board should approve all invoices prior to payment and establish a policy for early payment in order to receive credit or avoid late fees.

Status: The School Board will begin approving invoices.

Conclusion

We would like to express our appreciation, as well as that of our staff for the excellent cooperation we received while performing the audit. If we can be of assistance, please contact us.

This report is intended solely for the information and use of the Board of Education, management, and federal or state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



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August 4, 2006